September 23, 1998

A "Monica" Market?

Do the President's Problems Threaten the Financial Markets?

In a word, this year's stock market has been volatile. So far in 1998, the Dow Jones Industrial Average (DJIA) has seen 61 days where its value has changed by the significant margin of one percent or more — 34 days up and 27 days down. The DJIA's 1998 average monthly change (through August) is 4.05 percent — a rate of change unsurpassed during the current seven-and-one-half-year economic expansion with only one exception (a 4.82-percent average change in 1997).

Yet movement alone is not what distinguishes this market or truly defines volatility. The bull markets of the last several years have shown dramatic upward growth overall — increasing 2.6 times from 2914 at the end of March 1991, when the current economic expansion began, to 7539 at the end of August 1998. What truly defines this year's market as volatile is the degree of dramatic up and down marks, especially in the last month.

Are we in a "Monica" market where it is the president's lack of authority and credibility that becomes the driving factor in America's near-term economic future?

Based on August's close, the DJIA was down 369 points from its 1997 year-end closing. Were the end of August the year-end close, it would mark the first time in the current expansion (that is, going back to March 1991) that the Dow had closed below the previous year. The lowest yearly change thus far in the current economic expansion was an 80-point gain in 1994 and the highest has been 1997's 1460-point gain.

The market's volatility is obvious; the question is: Why?

Not a "Bull," Not a "Bear," but a "Monica" Market?

Undoubtedly, external factors have played a large role in the markets' performance. Japan, Asia, and Russia have been wracked by financial turmoil, with Brazil and Latin America now threatened as well. These overseas episodes have had global repercussions, including in the United States. Yet in contrast to many of its global partners, the U.S. economy has not only been quiescent but surprisingly robust — its fundamentals have remained strong thus far. However, the U.S. stock market — the nation's economic barometer — has been far from quiet. While America has avoided economic shocks, it hasn't avoided political ones. These have not been normal electoral or policy ones, nor have they been dispersed, but rather have come directly from the pinnacle of America's political system: the President himself.

The President's political fortunes have been as volatile as the markets. In fact, the two have shown a striking simultaneity all year. While related events can be cause, effect, or coincidence, recent market performance has shattered the pretext of coincidence or effect. In short, instead of either the traditional "Bull" or "Bear" markets of Wall Street parlance, are we in, or entering, a "Monica" market where it is the president's lack of authority and credibility that becomes the driving factor in America's near-term economic future?

The Evidence of Volatility

There is no shortage of evidence of the stock market's 1998 volatility. In 11 of the last 18 sessions, the DJIA has moved one percent or more, a significant amount in anyone's estimation, and in 6 of the last 11 sessions, it has had shifts of 150 points or more. For the year, the DJIA has had 61 days where its value has changed by more than one percent.

Looking at average monthly percentage changes in the DJIA (that is, the percentage change between the closing of one month and the previous month's closing), 1998's (through August) average percentage change is 4.05 percent. The only other time (during the current economic expansion) the average monthly change was more than this was 1997 when it measured 4.82 percent. In comparison, 1996's average monthly change was 2.6 percent; 1995 was 2.92 percent; 1994 was 3.32 percent; 1993 was 1.62 percent; 1992 was 1.83 percent; and 1991 (from March, when the current economic expansion began, through December) was 3.57 percent.

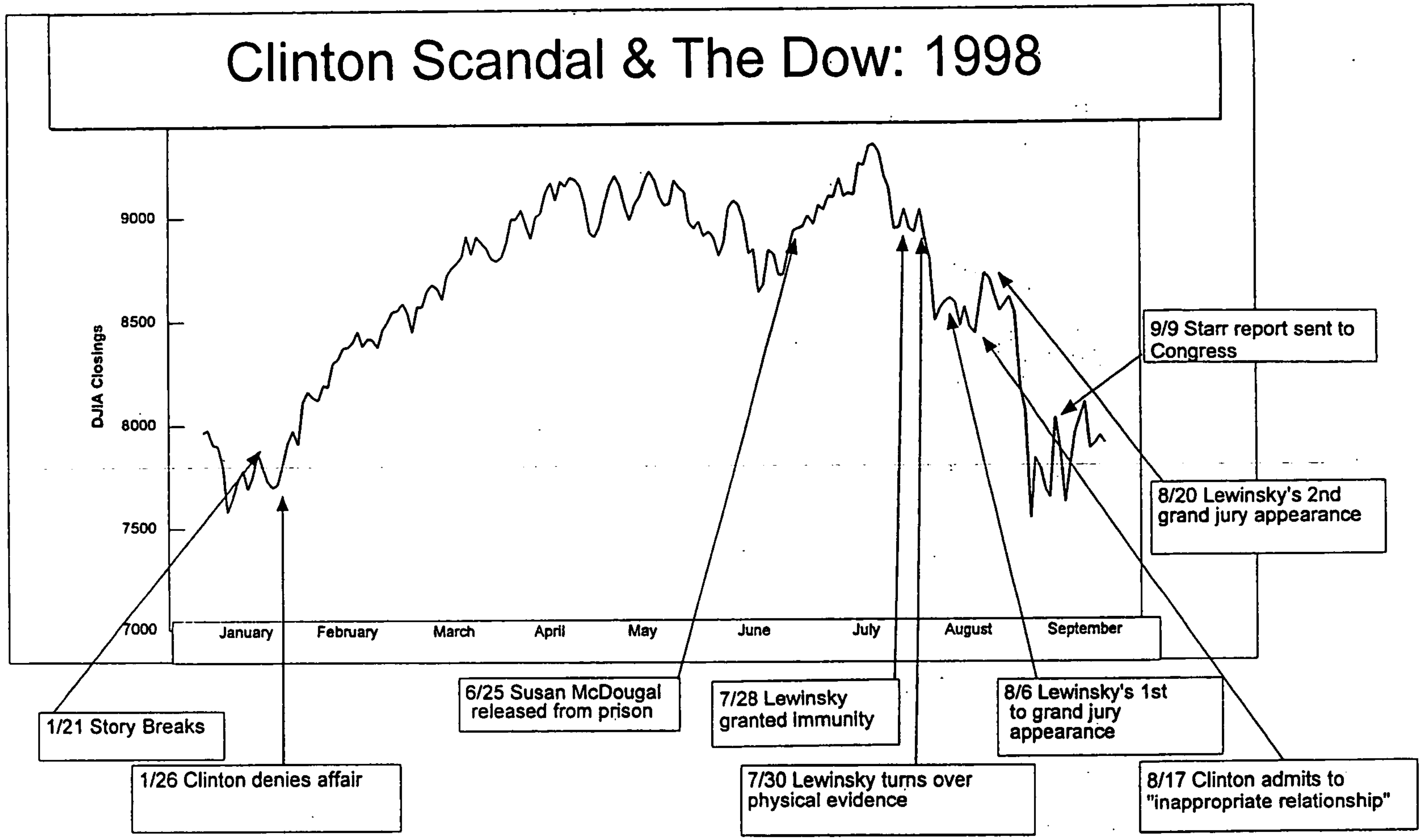
In short, the market, as measured by the Dow Jones Industrial Average, is at its most volatile since the current economic expansion began in March of 1991.

In a month-by-month comparison, the 1998 DJIA performance also exhibits its volatility. Through the first eight months (through August), the 1998 DJIA has been evenly split between gaining months and losing months — four months up and four down. In comparison, only the initial nine months of the current expansion, beginning in March of 1991, resulted in such a similar ratio (5:4). All of the other years have shown more "up" months: 1992 saw seven; 1993 saw nine; 1994 had seven; 1995 had 10; and 1996 and 1997 each had nine.

In short, the market as measured by the DJIA is at its most volatile since the current economic expansion began in March of 1991.

The Clinton Scandal and the Market

While obviously many factors affect the financial markets on a day-to-day basis, also obvious — particularly since August — is that the President's predicament has been one of them.


Clinton Scandal & The Dow: 1998
DJIA Closings
9000
8500
8000
7500
7000
January
February
March
April
May
June
July
August
September
9/9 Starr report sent to Congress
8/20 Lewinsky's 2nd grand jury appearance
1/21 Story Breaks
1/26 Clinton denies affair
6/25 Susan McDougal released from prison
7/28 Lewinsky granted immunity
7/30 Lewinsky turns over physical evidence
8/6 Lewinsky's 1st to grand jury appearance
8/17 Clinton admits to "inappropriate relationship"

Even over the course of the year's entirety, the market's performance has broadly tracked the predicament of President Clinton [see Appendix: 1998 Scandal Time Line]. When the news media first broke the Monica Lewinsky story on January 21 of this year, the DJIA fell 79 points. President Clinton quickly put this behind him with a deliberate national denial on January 26 and a nationally well-received State of the Union Address on January 27. The DJIA gained 114 points over the two-day period and began an extended ascent lasting the next few months.

The market began moving downward in late May as elements of the Clinton-Lewinsky relationship again began to add credibility to the rumors. Lewinsky appeared at FBI offices in Los Angeles on May 28, and on June 2, fired her attorney William Ginsburg in favor of more Washington-seasoned counsel. The market continued to move down until mid-June. On June 13, there was the admission that Independent Counsel Starr's office had briefed reporters about the case. This was followed on successive days with the release June 25 of key Whitewater witness Susan McDougal from jail (thus seemingly guaranteeing that she would not testify against Clinton) and on June 26, the dismissal of tax evasion charges against Clinton friend/former White House staffer/Whitewater witness Webster Hubbell. The market again resumed an upward movement that lasted until mid-July.

Beginning in mid-July the President's problems began to be confirmed. On July 17, Starr first won what were to become a series of court victories in which he succeeded in compelling White House personnel to testify regarding their knowledge of the Clinton-Lewinsky scandal. The market again began a descent as rumors of Clinton wrongdoing began to become fact. Clinton himself was subpoenaed on July 25, Lewinsky was granted full immunity on July 28 and turned over physical evidence on July 30. Lewinsky testified before the grand jury for the first time on August 6, while Clinton did so on August 17 and on the same day admitted to an "inappropriate relationship" in a nationally televised speech. Lewinsky made a second grand jury appearance on August 20 and Starr delivered his report to Congress on September 9.

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Starting with Chief Justice Rehnquist's refusal to bar Secret Service officers from testifying on July 17, the DJIA began its fall from its all-time closing high of 9338. After Lewinsky was granted immunity on July 28, the DJIA closed at 8934. The DJIA was at 8578 after Lewinsky's first appearance before the grand jury on August 6 and closed at 8574 after Clinton's taped grand jury testimony. After rallying following Clinton's admission on August 17, the DJIA fell from its 8715 August 18 close — culminating with a 249-point drop on the day Starr's report was delivered to Congress on September 9.

What of the Future?

While it is obvious the financial markets have been influenced by more than just the President's problems, it is also obvious the markets have become increasingly influenced by them. Yet far more important than the question of past connection is the question of a future one.

It is common for presidents' political fortunes to be affected by financial markets; it is uncommon when the reverse becomes true. It is also unwelcome — particularly during global economic uncertainty. The American economy has remained a tower of strength amidst global problems. Without this strength, the world situation would be far worse.

Just as the economies of nations are interrelated, so too the performance of financial markets is an interrelation between economic fundamentals and investor expectations. Over the long term, financial markets track real economic performances, but in the short term, financial markets are affected by investors' expectations of factors that will influence economic performance. Each shape the other.

Therefore, it is a legitimate concern that President Clinton's past current and potentially perpetual problems will serve to undermine an already weakened American economy and even weaker global one. Rather than the "bull" or "bear" market, do we face a "Monica market," hallmarked by dramatic and discomforting volatility?

The Trust Factor

The current economic crises overseas demonstrate the strength of the U.S. economy, and of the American economic system — monetary, fiscal, and financial — as well. Operated and overseen by largely independent entities (the Fed, SEC, etc.), it sometimes seems on autopilot. Yet, not unlike an airplane's autopilot, which could handle most of a flight regardless of who was in the cockpit, the President's role as pilot is too easily dismissed. An autopilot can't handle takeoffs, landings, nor the severe turbulence which the U.S. and global economies have already entered.

As Greenspan noted, "A key characteristic, perhaps the fundamental cause, of a vicious cycle is the loss of trust."

That the U.S. faces economic turbulence is as undeniable as the stock market's volatility. Federal Reserve Board Chairman Alan Greenspan stated in a September 4, speech: "It is not credible that the United States can remain an oasis of prosperity unaffected by a world that is experiencing greatly increased stress." As the President himself remarked just a day later — when forced by the Dow's 411-point fall of the preceding week — in his September 5 national radio address, "We must master the complex realities of the new global economy. . . . America will work with the international community to help you get back on your feet." The question then is, how can the international community be confident that he can deliver?

Turbulent situations require leadership — and trust in that leadership. As Alan Greenspan also said on September 4: "Certainly the degree of confidence that future outcomes are perceivable and projectable, and hence valued, depends on large part on the underlying political stability of any country with a market-oriented economy." Conversely, he noted, "a key characteristic, perhaps the fundamental cause, of a vicious cycle is the loss of trust."

President Clinton's problems call this needed confidence and trust into question. They add another element of volatility to a situation begging for stability.

Despite this president's problems being entirely of his own making, their ill effects are not limited to him. Clinton has given both the nation's economy (and to some extent the world's) another precarious push at a time when steadiness is needed. It also raises the question as to how much Clinton's problems — so visible in the financial markets — are affecting society in less visible ways. The economy is not the only turbulence on America's horizon — waiting are Social Security reform, Medicare reform, tax reform, and a host of foreign relations challenges (including, but hardly limited to Iraq, North Korea, the former Yugoslavia, China and the Indian subcontinent). All require the trust and confidence that the financial markets and the country demand, but which the markets have begun to heavily discount in this president's case.

This confidence in the office of the presidency must be restored — the workings not only of our economy and our democracy depend on it, but to a great extent the world's as well. Confidence cannot be restored by pretending it exists; rather, such action merely underscores the problem and shifts the consequences to a later, and perhaps far more dangerous, time. If Members of Congress believe the President of the United States cannot restore the confidence he has lost as a result of his misconduct, then it makes it even more imperative for the House Judiciary Committee to expeditiously proceed with its constitutional duty to move forward on the impeachment process.

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The Clinton-Lewinsky Scandal: A 1998 Time Line

September 9th	Starr delivers report to Congress.
August 20th	Monica Lewinsky appears before the grand jury for a second time.
August 17th	Clinton appears before the grand jury via closed-circuit television for five hours from the White House and admits to "inappropriate relationship" in brief nationally televised speech that evening.
August 6th	Monica Lewinsky appears before the grand jury.
August 4th	Supreme Court Chief Justice William Rehnquist refuses to block the forced testimony of White House Lawyer Lanny Breuer.
July 30th	Monica Lewinsky turns over evidence, including a dress and several taped phone messages from Clinton, to Starr.
July 29th	Clinton attorney David Kendall announces that Clinton has agreed to provide videotaped testimony in the Monica Lewinsky investigation on August 17th.
July 28th	Monica Lewinsky is granted full immunity from prosecution.
July 27th	Federal appeals court judges order Bruce Lindsey to submit to grand jury questioning.
	Monica Lewinsky meets with the IC staff and tells them that she had sexual relations with Clinton.
July 25th	Ken Starr subpoenas Clinton to testify.
July 24th	A Secret Service officer tells a grand jury that he and White House deputy Chief of Staff Harold Ickes found President Clinton and Monica Lewinsky alone in a room close to the Oval Office.

July 17th	Supreme Court Chief Justice Rehnquist refuses to bar secret service officers from having to testify before a grand jury in the Lewinsky investigation.
July 14th	Starr subpoenas Secret Service Special Agent Larry Cockell, who heads up Clinton's security detail.
July 1st	US District Judge Robertson dismisses charges of tax evasion against Webster Hubbell, his wife Suzy, his accountant, and his tax lawyer.
June 26th	No immunity deal in sight for Lewinsky, as she flies to California to spend time with her father.
June 25th	US District Judge Howard releases Susan McDougal from prison for medical reasons.
June 13th	Starr admits he and his aides have given information on the Lewinsky matter to reporters.
June 2nd	Lewinsky fires attorney William Ginsburg and retains the services of Washington lawyers.
May 28th	Monica Lewinsky appears at FBI offices in LA to provide them with fingerprints and speech samples.
January 27th	Hillary Rodham Clinton goes on NBC Today to defend her husband. Claims there is a massive right wing conspiracy.
January 27th	Clinton gives State of the Union address to Congress.
January 26th	Clinton emphatically denies on national TV that he had any sexual relationship with Lewinsky.
January 15th	Starr granted authority to investigate if Clinton and Lewinsky had a relationship, and if he later asked her to lie about it.